

## Message Text

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71

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SP-03 CIEP-02 LAB-06 SIL-01 OMB-01 DODE-00 PM-07 H-03

L-03 NSC-07 PA-04 PRS-01 SS-20 USIA-15 CEA-02 STR-08

IO-14 DRC-01 /198 W

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R 241745Z APR 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC 4498

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMCONSUL MILAN

AMCONSUL NAPLES

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET

PASS TREASURY AND FRB

REF: ROME 4604

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1. SUMMARY. BANK OF ITALY CONTINUING TO INTERVENE

HEAVILY TO SUPPORT LIRA WHICH HAS, NEVERTHELESS, DECLINED ALMOST TO PREVIOUS RECORD LOW. CUMULATIVE BALANCE OF PAYMENTS DEFICIT ADJUSTED FOR EUROMARKET BORROWING FOR FIRST QUARTER WAS \$3,051 MILLION. END SUMMARY.

2. DURING FIRST THREE WEEKS OF APRIL, LIRA HAS PROGRESSIVELY WEAKENED, PARTICULARLY AGAINST DEUTSCHE MARK, SWISS FRANC, BELGIAN FRANC AND DUTCH GUILDER. ACCORDING TO 24 ORE INDEX, LIRA AS OF APRIL 23 HAS DEPRECIATED 21.28 PCT SINCE FEBRUARY 1973. THIS IS A MAXIMUM FOR 1973 AND IS ONLY SLIGHTLY LESS THAN LEVEL OF DEPRECIATION REGISTERED ON BLACK THURSDAY IN JUNE 1973. BANK OF ITALY INDEX (WEIGHTED ON 1972 TRADE DATA) SHOWS A 17.04 PCT DEPRECIATION FOR SAME TIME PERIOD. DEPRECIATION OF LIRA AGAINST ALL MAJOR CURRENCIES WAS BY NO MEANS UNIFORM, HOWEVER. LIRA/DOLLAR RATE HAS WEAKENED CONSIDERABLY LESS THAN LIRA/DM OR LIRA/GUILDER RATE. FOR EXAMPLE, LIRA WEAKENED AGAINST DOLLAR SOME 1.8 PCT, FROM 624.875 ON APRIL 1 TO 635.95 ON APRIL 23. AGAINST DM AND GUILDER, HOWEVER, LIRA MOVED DOWN 3.5 PCT FOR BOTH, FROM 246.735 ON APRIL 1 TO 255.44 ON APRIL 23 FOR DM AND FROM 232.275 TO 240.365 FOR GUILDER. ALTHOUGH LIRA HAS, IN PRACTICE, BEEN FOLLOWING MOVEMENT OF DOLLAR RECENTLY, HEAD OF BOI FOREIGN EXCHANGE OPERATIONS ERCOLANI TOLD TREASATT APRIL 24 THAT BOI IS NOT ATTEMPTING TO PEG LIRA TO DOLLAR BUT THAT LIRA HAS SIMPLY TENDED TO FOLLOW WEAKEST CURRENCY, WHICH HAS RECENTLY BEEN DOLLAR.

3. PRELIMINARY MONETARY MOVEMENTS DATA FOR MARCH SHOW BALANCE OF PAYMENTS DEFICIT OF \$1,084 MILLION, DESPITE RECEIPTS OF \$150 MILLION FROM FOREIGN FINANCIAL HOLDING COMPANY OF MONTEDISION (MONEX ESTAB.) ERRONEOUSLY DESCRIBED IN REFTEL. ADJUSTED DEFICIT FOR MONTH, THEREFORE, WAS \$1,234 MILLION. DEFICIT WAS FINANCED BY DECLINE IN NET OFFICIAL ASSETS OF \$678 MILLION AND WORSENING IN COMMERCIAL BANKS' NET FOREIGN POSITION BY \$406 MILLION. BOI CONVERTIBLE HOLDINGS ALONE DROPPED BY \$594 MILLION. THIS, IN ADDITION TO \$150 LIMITED OFFICIAL USE

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MILLION BOI LOAN, INDICATES EXCHANGE MARKET INTERVENTION ON ORDER OF \$744 MILLION DURING MARCH, COMPARED TO \$928 MILLION IN FEBRUARY AND \$1,050 MILLION IN JANUARY.

4. CUMULATIVE BALANCE OF PAYMENTS DEFICIT FOR FIRST QUARTER WAS \$1,951 MILLION (\$3,051 MILLION ADJUSTED FOR EUROMARKET BORROWING) FINANCED BY DECLINE IN NET OFFICIAL ASSETS OF \$1,552 MILLION AND WORSENING IN

COMMERCIAL BANKS' FOREIGN NET POSITION BY \$399 MILLION. EUROMARKET AND OTHER COMPENSATORY BORROWINGS DURING PERIOD WERE \$1,100 MILLION. THIS, PLUS DECLINE IN CONVERTIBLE CURRENCY HOLDINGS OF \$1,617 MILLION, SUGGESTS EXCHANGE MARKET INTERVENTION ON ORDER OF \$2,717 MILLION DURING PERIOD. (MONTHLY TOTALS FOR MARKET INTERVENTION IN PARAGRAPH 3 DO NOT ADD TO THIS TOTAL DUE TO UNIDENTIFIED REVISIONS OF JANUARY AND FEBRUARY FIGURES NOW INCLUDED IN CUMULATIVE TOTAL.)

5. ERCOLANI INDICATES THAT BOI HAD RECEIVED \$800 MILLION OF PROCEEDS FROM \$1.2 MEDIOBANCA LOAN AS OF APRIL 24; EXPECTED TO RECEIVE ADDITIONAL \$200 MILLION BEFORE END OF MONTH AND REMAINING \$200 MILLION IN EARLY MAY. HE ALSO SAID THAT BOI IS ABOUT TO CONCLUDE AGREEMENT WITH BANK OF CANADA FOR SWAP OF 250 MILLION CANADIAN DOLLARS. THIS WOULD BE ADDITIONAL TO EXISTING \$500 MILLION WITH BUNDESBANK AND \$250 MILLION WITH SWISS NATIONAL BANK. OLD \$500 MILLION WITH BANK OF FRANCE LAPSED WHEN FRENCH FRANC LEFT EC SNAKE.VOLPE

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** LIRA, FOREIGN EXCHANGE RATES, DEVALUATIONS, BALANCE OF PAYMENTS DEFICITS  
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**Copy:** SINGLE  
**Draft Date:** 24 APR 1974  
**Decaption Date:** 01 JAN 1960  
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**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
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**Disposition History:** n/a  
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